

Holton Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Holton Public Schools

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This section of Holton Public School's Annual Financial Report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand Holton Public School financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds, the General Fund and 2006 Building Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditor's opinion, (3) the basic financial statements, and (4) the required supplementary information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

Reporting the School District as a Whole – District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of Fiduciary Assets and Liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. The net assets of the District at June 30, 2008 amounted to approximately \$3.75 million. Table 1 shows a condensed breakdown of the net assets.

Table 1 Condensed Statement of Net Assets		
	Governmental Activities June 30, 2007	Governmental Activities June 30, 2008
Current assets	\$ 4,460,669	\$ 4,433,160
Capital assets, net	18,485,616	17,965,259
Other non-current assets	357,331	350,522
Total assets	23,303,616	22,748,941
Current liabilities	3,552,092	3,357,014
Non-current liabilities	16,080,625	15,639,429
Total liabilities	19,632,717	18,996,443
Net assets		
Invested in capital assets, net of related debt	2,503,137	2,289,845
Restricted for Debt Service	168,386	116,043
Unrestricted	999,376	1,346,610
Total net assets	\$ 3,670,899	\$ 3,752,498

The largest portion of the District's net assets reflects investment in capital assets (e.g., land, buildings and improvements, fiber optics, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

The changes affecting the Condensed Statement of Net Assets include the reduction of capital assets due to depreciation expense and the reduction of long-term obligations due to repayment of principal and additional employees' participation in the District's Early Retirement Incentive program.

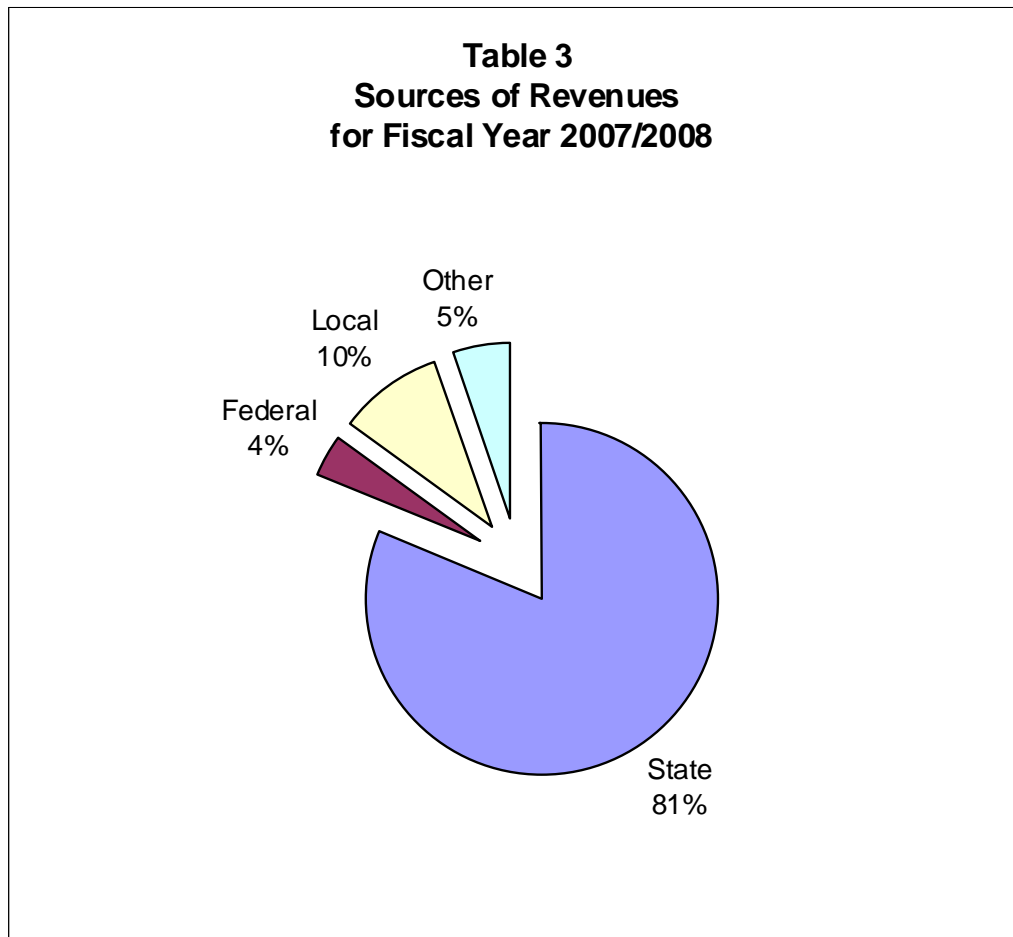
The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2008.

Table 2		
Statement of Activities		
	Governmental Activities <u>June 30, 2007</u>	Governmental Activities <u>June 30, 2008</u>
Revenues		
Program Revenues		
Charges for services	\$ 298,145	\$ 293,783
Operating grants and contributions	1,861,995	2,055,401
General revenues		
Property taxes	1,596,805	1,732,863
Unrestricted grants and contributions	6,839,069	7,044,465
Other	227,124	99,386
Total revenues	10,823,138	11,225,898
Expenses		
Instruction	5,562,136	6,088,268
Support services	3,335,807	3,528,886
Community services	0	240
Food services	372,199	417,486
Athletics	161,345	401,687
Interest on long-term debt	774,885	697,527
Unallocated depreciation and amortization	444,436	10,205
Total Expenses	10,650,808	11,144,299
Increase (decrease) in net assets	172,330	81,599
Net assets at beginning of year	3,498,569	3,670,899
Net assets at end of year	\$ 3,670,899	\$ 3,752,498

The net assets of the District increased by \$81,599 during the 2007-2008 year. The cost of the District's governmental activities for the year was \$11.14 million. Those who benefited from food service, athletic programs, and support services, mostly made up of centralized transportation, and paid service charges of \$294 thousand. Operating grants and contributions of \$2.0 million were for programs paid for by other governments and organizations. The other resources were provided with property tax, state pupil foundation allowance (state aid), investment earnings and other miscellaneous revenues.

The overall change in the Statement of Activities was due to an increase in At-Risk and Title I funding, an increase in the millage rate for the general fund and an increase in State Aid funding. Unallocated depreciation decreased as a result of allocating depreciation to the appropriate functional lines.

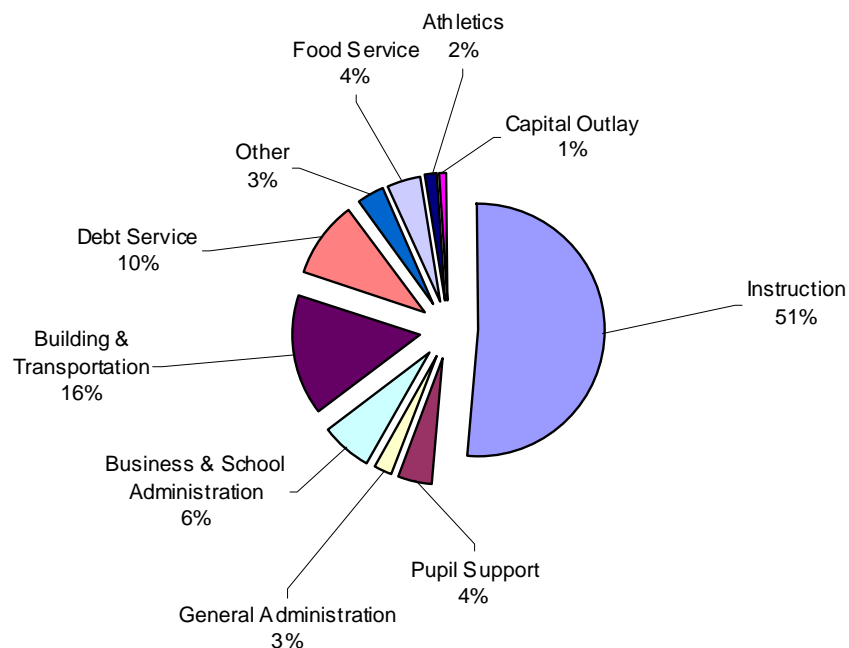
A substantial portion (81%) of the District's revenues is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Table 3 depicts the breakdown of the sources of General Fund Revenue for the District.



As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

As Table 4 depicts, 55% of the District's total resources in all funds are spent on instruction and pupil support services. Another 6% is spent on administrative and business services necessary to efficiently operate the District, while 16% is spent for transportation and maintenance, including utilities and custodial services. Debt service contributes to 10% of the total budget, which includes principal and interest. Note this year, there is a decrease in capital outlay down from 29% in 2006-2007 to 1% in 2007-2008. This is the result of the completion of 2006 Athletic Capital Projects Fund for the construction of our athletic complex in 2006-2007. The final 12% is spent on other interest and additional support services including athletics, food service, and general administration.

Table 4
Expenditures for Fiscal year 2007/2008



Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. The general fund equity increased by \$398,315 during the 2007/08 fiscal year, resulting in fund equity of \$1,382,299 at year end. The primary reasons for the change in fund balance are as follows:

Factors Impacting Operations

Student Enrollment – The student population increased from September 2006 to September 2007 by 18 students. Enrollment numbers were above the prediction by 27 students with a blended count of 1,113 students. Throughout the school year district administrators across Michigan, including this administration shouldered the continued threat of a pro-ration in per pupil funding ranging from \$100 - \$200 per pupil. However, the foundation allowance remained as predicted at a rate of \$7,204 per pupil.

Food Service - The food service program for the 2007/2008 school year did not require additional funding from the general fund for the fourth straight year. Revenues generated from the food service department were greater or equal to the expenditures for the program. For the fourth year in a row, the food service fund was charged an indirect cost rate to supplement the general fund for operations and maintenance. For 2006-2007 the food service fund was charged \$25,000 while \$32,965 was charged for services in 2007-2008.

Investments – The return on investments was greater than expected for the 2007-2008 school year. This added an additional \$14,326 in revenue.

Medicaid – During the 2007-2008 school year, Holton Public Schools received an additional \$68,748 than projected for Medicaid billing. This function is coordinated with the Muskegon Area Intermediate School District and is a reflection of concerted effort by staff to complete timely billing.

Insurance/Contract Settlement – Holton Educational Association and the Holton Board of Education ratified a seven year contract in December 2007. The teachers changed insurance coverage from MESSA Supercare to MESSA Choices II. The Administrative Group and Support Personnel continue insurance coverage with a High Deductible Health Plan through Priority Health. Beginning in February 2008, teachers contributed \$100 per month toward the costs of the health insurance premiums. Members of the Administrative group continued to contribute \$100 per month and the Support Personnel continued to contribute \$83 per month toward the costs of health insurance premiums. This change resulted in savings to the district of approximately \$86,000.

Special Education Billback and Act 18 – This district participates in a consortium with the Muskegon Area Intermediate School District for special education services, transportation and billing. For more accurate budgeting, the district used a three year average when predicting revenue and expenses under this program. The district saw a reduction in billback charges of \$8,654 and a reduction in revenue of \$15,221. This resulted in an overall difference of only \$6,567.

Energy Costs - With the uncertainty of rising fuel costs, the district allocated additional funds for transportation fuel and utilities. To ensure enough resources to meet the needs of the volatile market, the district allocations for these areas exceeded actual expenditures by \$56,000.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

Variances between the final budget amounts and actual amounts were largely due to the following:

- At-risk revenue lower due to deferring a portion for funds unspent by year end.
- Reduction in Unemployment Insurance - \$40,000.
- Restricted program allocations carried forward to 2008-2009 – \$95,000.
- Reduction in energy costs allocations – \$56,000.
- Reduction in transfer to Athletic Fund - \$8,000.
- Reduction in insurance costs - \$86,000.
- Reduction in staffing due to employees out on unpaid leave - \$20,000.

Original vs. Amended Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. For the first time, the district completed an additional budget amendment in February 2008, along with the traditional budget amendments in October 2007 and June 2008. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$300,905 net change in the total General Fund revenue budget from the beginning to the end of the year. The significant changes in funding sources were as follows:

- The *local source* revenue budget increased by \$18,934. This increase was attributed to interest earnings and changes in taxable values.
- The *state source* revenue budget increased by \$174,754. The increase was due to prior year adjustments to state aid and an increase in pupil counts.
- The *federal source* revenue budget increased by \$75,667. The main reason for the increase was the receipt of additional IDEA and Title I funds.
- The *other revenue* budget increased by \$31,550. This increase is primarily due to financing sources for the purchase of new computer equipment and an increase in transfers from the food service fund.

Expenditures – The significant changes by functional category are as follows:

- The ***instructional services*** budget remained constant throughout the year with a fluctuation of only \$2,480.
- The ***general administration*** budget had a net decrease of \$23,698. This was the result of shifting funds set aside for legal fees to an Early Retirement Incentive program.
- The ***school administration*** budget had a net increase of \$34,705 due to the allocation of additional secretarial time and insurance.
- The ***business services*** budget had a net decrease of \$24,980 due to the consolidation of services in the payroll and business functions.
- The ***operations and maintenance*** budget had a net increase of \$67,094 due to the addition of capital budgets for roof repairs and grounds maintenance.
- The ***transportation*** budget had a net increase of \$34,828 mainly due to an increase in anticipated fuel costs.
- The ***central services*** budget decreased by \$68,021. This decrease is the result of the accounting code changes for computer purchases from technology to instructional programs.

Capital Assets

At June 30, 2008, the School District had \$17,965,259 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$520,357 from last year.

	<u>2007</u>	<u>2008</u>
Land	\$ 209,670	\$ 209,670
Construction in progress	0	29,140
Building and building improvements	17,784,845	17,205,964
Buses and other vehicles, furniture and equipment	<u>491,101</u>	<u>520,485</u>
Total capital assets	<u>\$18,485,616</u>	<u>\$17,965,259</u>

Debt

At the end of this year, the School District had \$15,882,489 in bonds outstanding versus \$16,329,181 in the previous year – a decrease of \$446,692 due to continued payments for the debt service. The district continues to participate in an education interconnection and consortium financing agreement. The district participated this year in the School Bond Loan Fund and early retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budget

Our elected officials and administration considered many factors when setting the School District's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 budget was adopted in June 2008, based on an estimated number of students that will be enrolled in September 2008. Approximately 81 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008/2009 school year, we anticipate that the fall student count could be slightly lower than the estimate used in creating the 2008/2009 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

The State periodically holds a revenue-estimating conference to estimate revenues. At this time, the State is in agreement on per pupil funding for 2008-2009 with an increase of \$112 per pupil or \$7,316. The original budget was adopted with an estimated \$100 per pupil increase and a reduction of 50 students.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Department at the Holton Public Schools Administrative Office, Holton, Michigan 49425.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 3, 2008

Board of Education
Holton Public Schools
Holton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Holton Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Holton Public Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 3, 2008 on our consideration of Holton Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - x and page 25, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Holton Public Schools
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,473,735
Receivables	196,133
Due from other governmental units	1,761,914
Inventories	<u>1,378</u>
Total current assets	4,433,160
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	238,810
Depreciable	17,726,449
Bond issuance costs, net	206,963
Note and interest receivable	<u>143,559</u>
Total noncurrent assets	<u>18,315,781</u>
Total assets	22,748,941
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	1,400,000
Accounts payable and accrued liabilities	872,184
Due to other governmental units	332,998
Deferred revenue	95,930
Bonds and other obligations, due within one year	<u>655,902</u>
Total current liabilities	3,357,014
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	15,615,351
Accrued interest	<u>24,078</u>
Total noncurrent liabilities	<u>15,639,429</u>
Total liabilities	<u>18,996,443</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,289,845
Restricted for debt service	116,043
Unrestricted	<u>1,346,610</u>
Total net assets	<u>\$ 3,752,498</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

		Program Revenue		Net (Expense)
				Revenue and
				Changes in
				Net Assets
<i>Functions/Programs</i>	<u>Expenses</u>	<u>Charges for</u>	<u>Operating grants</u>	<u>Governmental</u>
		<u>services</u>	<u>and contributions</u>	<u>activities</u>
Governmental activities				
Instruction	\$ 6,088,268	\$ -	\$ 1,330,952	\$ (4,757,316)
Support services	3,528,886	165,542	337,486	(3,025,858)
Community services	240	-	240	-
Food services	417,486	97,347	383,327	63,188
Athletics	401,687	30,894	-	(370,793)
Interest on long-term debt	697,527	-	3,396	(694,131)
Unallocated depreciation and amortization	10,205	-	-	(10,205)
Total governmental activities	<u>\$ 11,144,299</u>	<u>\$ 293,783</u>	<u>\$ 2,055,401</u>	<u>(8,795,115)</u>
General revenues				
Property taxes levied for				
General purposes				697,625
Debt service				1,035,238
Grants and contributions not restricted to specific programs				7,044,465
Investment earnings				74,556
Miscellaneous				24,830
Total general revenues				<u>8,876,714</u>
Change in net assets				81,599
Net assets at July 1, 2007				<u>3,670,899</u>
Net assets at June 30, 2008				<u>\$ 3,752,498</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 2,044,145	\$ 142,669	\$ 286,921	\$ 2,473,735
Receivables	171,096	-	25,037	196,133
Due from other governmental units	1,707,119	-	54,795	1,761,914
Due from other funds	30,805	2,291	650	33,746
Inventories	-	-	1,378	1,378
Total assets	<u>\$ 3,953,165</u>	<u>\$ 144,960</u>	<u>\$ 368,781</u>	<u>\$ 4,466,906</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
State aid loan	\$ 1,400,000	\$ -	\$ -	\$ 1,400,000
Accounts payable	36,538	-	16,318	52,856
Accrued liabilities	702,459	-	6,835	709,294
Due to other governmental units	332,998	-	-	332,998
Due to other funds	2,941	-	30,805	33,746
Deferred revenue	95,930	-	-	95,930
Total liabilities	2,570,866	-	53,958	2,624,824
Fund balances				
Reserved				
Inventories	-	-	1,378	1,378
Debt service	-	-	250,155	250,155
Capital projects	-	144,960	-	144,960
Unreserved				
Designated for maintenance	100,000	-	-	100,000
Undesignated				
General Fund	1,282,299	-	-	1,282,299
School service	-	-	63,290	63,290
Total fund balances	<u>1,382,299</u>	<u>144,960</u>	<u>314,823</u>	<u>1,842,082</u>
Total liabilities and fund balances	<u>\$ 3,953,165</u>	<u>\$ 144,960</u>	<u>\$ 368,781</u>	<u>\$ 4,466,906</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2008

Total fund balance—governmental funds	\$	1,842,082
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Amounts reported for governmental activities in the Statement of Net Assets
 are different because:

Capital assets used in governmental activities are not current financial resources and
 are not reported in the governmental funds.

Cost of capital assets	\$ 25,020,426	
Accumulated depreciation	<u>(7,055,167)</u>	17,965,259

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	234,716	
Accumulated amortization	<u>(27,753)</u>	206,963

Other long-term note and interest receivable in governmental activities is not reported in the
 governmental funds.

143,559

Accrued interest in governmental activities is not reported in the governmental funds.

(134,112)

Long-term liabilities in governmental activities are not due and payable in the current period
 and are not reported in the governmental funds.

Bonds and notes payable	(16,186,253)	
Early retirement incentives	<u>(85,000)</u>	<u>(16,271,253)</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>3,752,498</u></u>
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The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	2006 Building Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 697,625	\$ -	\$ 1,035,238	\$ 1,732,863
Investment earnings	58,176	6,914	9,466	74,556
Fees and charges	165,542	-	125,337	290,879
Other	24,454	-	3,155	27,609
Total local sources	945,797	6,914	1,173,196	2,125,907
State sources	7,929,450	-	25,655	7,955,105
Federal sources	402,899	-	357,672	760,571
Total revenues	9,278,146	6,914	1,556,523	10,841,583
EXPENDITURES				
Instruction	5,766,292	-	-	5,766,292
Support services	3,391,889	-	-	3,391,889
Community services	240	-	-	240
Food services	-	-	413,807	413,807
Athletics	-	-	183,600	183,600
Debt service				
Principal	-	-	455,000	455,000
Interest and other charges	-	-	679,290	679,290
Capital projects	-	108,522	-	108,522
Total expenditures	9,158,421	108,522	1,731,697	10,998,640
Excess (deficiency) of revenues over (under) expenditures	119,725	(101,608)	(175,174)	(157,057)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units				
and other transactions	380,919	-	-	380,919
Loan proceeds	99,280	-	38,250	137,530
Transfers in	32,965	-	152,705	185,670
Transfers out	(152,705)	-	(32,965)	(185,670)
Transfers to other governmental units				
and other transactions	(81,869)	-	-	(81,869)
Total other financing sources (uses)	278,590	-	157,990	436,580
Net change in fund balances	398,315	(101,608)	(17,184)	279,523
Fund balances at July 1, 2007	983,984	246,568	332,007	1,562,559
Fund balances at June 30, 2008	\$ 1,382,299	\$ 144,960	\$ 314,823	\$ 1,842,082

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	279,523
--	----	---------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (731,314)	
Capital outlay	<u>200,752</u>	(530,562)

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not recorded in the governmental funds until received.	3,396
--	-------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.	(138,715)
--	-----------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	518,158
--	---------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(201)
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Early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>(50,000)</u>
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Change in net assets of governmental activities	<u><u>\$ 81,599</u></u>
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The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2008

	Agency funds
ASSETS	
Cash and cash equivalents	\$ 76,632
LIABILITIES	
Deposits held for others	\$ 76,632

The accompanying notes are an integral part of this statement.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Holton Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District’s expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

The *General Fund* is the School District’s primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The *2006 Building Capital Projects Fund* accounts for the use of the proceeds from the 2006 School Building and Site bonds. The bonds were approved for issuance on November 8, 2005 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18
Debt service funds - Homestead and non-homestead	7

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Business Manager is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

The School District did not have significant expenditure budget variances.

School Bond Construction Compliance

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2006 Capital Projects Fund from the inception of the fund through June 30, 2008.

	2006 Building Capital Projects Fund
Revenue and bond proceeds	\$ 7,875,760
Expenditures	7,730,800

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had only cash and cash equivalents.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. In accordance with its investment policy, the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$2,463,871 of the School District's bank balance of \$2,564,436 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 209,670	\$ -	\$ -	\$ 209,670
Construction in progress	<u>-</u>	<u>29,140</u>	<u>-</u>	<u>29,140</u>
Total capital assets, not being depreciated	209,670	29,140	-	238,810
Capital assets, being depreciated:				
Buildings and improvements	23,068,467	51,942	-	23,120,409
Equipment	779,425	44,693	-	824,118
Vehicles	<u>790,399</u>	<u>74,977</u>	<u>28,287</u>	<u>837,089</u>
Total capital assets, being depreciated	24,638,291	171,612	28,287	24,781,616
Less accumulated depreciation:				
Buildings and improvements	5,283,622	630,823	-	5,914,445
Equipment	511,123	41,299	-	552,422
Vehicles	<u>567,600</u>	<u>48,987</u>	<u>28,287</u>	<u>588,300</u>
Total accumulated depreciation	<u>6,362,345</u>	<u>721,109</u>	<u>28,287</u>	<u>7,055,167</u>
Total capital assets, being depreciated, net	<u>18,275,946</u>	<u>(549,497)</u>	<u>-</u>	<u>17,726,449</u>
Capital assets, net	<u><u>\$ 18,485,616</u></u>	<u><u>\$ (520,357)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,965,259</u></u>

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 284,975
Support service	214,368
Food service	3,679
Athletics	<u>218,087</u>
	<u><u>\$ 721,109</u></u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 263,616	\$ -	\$ 28,900	\$ 234,716
Less accumulated amortization	46,448	10,205	28,900	27,753
Bond issuance costs, net	<u>\$ 217,168</u>	<u>\$ (10,205)</u>	<u>\$ -</u>	<u>\$ 206,963</u>

Amortization

Amortization expense has been charged as unallocated amortization.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 30,805
2006 Building Capital Projects Fund	General Fund	2,291
Other governmental funds	General Fund	650
		<u>\$ 33,746</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$152,705 to the Athletics Fund to finance operations. The Food Service Fund transferred \$32,965 to the General Fund to finance indirect costs.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
State aid anticipation note				
2006/2007 3.68% due August 2007	\$ 1,550,000	\$ -	\$ 1,550,000	\$ -
2007/2008 3.68% due August 2008	<u>-</u>	<u>1,400,000</u>	<u>-</u>	<u>1,400,000</u>
	<u>\$ 1,550,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,550,000</u>	<u>\$ 1,400,000</u>

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include office equipment and school bus loans payable, Education Interconnection and Consortium Financing Agreement and the School Bond Loan Fund.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Bonds	\$ 16,329,181	\$ -	\$ 446,692	\$ 15,882,489	\$ 486,262
Other obligations	236,515	138,715	71,466	303,764	84,640
Early retirement incentives	<u>35,000</u>	<u>110,000</u>	<u>60,000</u>	<u>85,000</u>	<u>85,000</u>
	<u>\$ 16,600,696</u>	<u>\$ 248,715</u>	<u>\$ 578,158</u>	<u>\$ 16,271,253</u>	<u>\$ 655,902</u>

In the previous schedule, the additions for other obligations include \$74,977 for a school bus loan, \$24,303 for computers and \$38,250 of draws and \$1,185 of accrued interest on the School Loan Revolving Fund.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

2005 Refunding General Obligation Bond payable in annual installments ranging from \$345,000 to \$450,000 due May 2009 to 2028; plus interest ranging from 3.5% to 5% payable semi-annually	\$ 8,545,000
Plus issuance premium	114,544
Less deferred amount on refunding	(272,173)
2006 Building and Site Bond payable in annual installments ranging from \$130,000 to \$655,000 due May 2009 to 2030; plus interest ranging from 3.5% to 4.4% payable semi-annually	7,385,000
Less issuance discount	(9,363)
Durant obligations payable in annual installments ranging from \$14,209 to \$95,473 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>119,481</u>
Total bonded debt	15,882,489

Other obligations

Office equipment loan payable in quarterly installments of \$3,305 through September 2009; including interest at 4.19%	15,793
School bus loans payable in aggregate quarterly installments of \$6,776 through September 2012; plus interest ranging from 3.33% to 4.44%	78,883
School bus loans payable in aggregate quarterly installments of \$6,809 through December 2011; including interest ranging from 4.19% to 4.54%	82,080

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations—Continued

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements; interest payable of \$1,185 is included at interest rates between 4.385% and 4.781%	\$ 39,435
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,654 due March 2009 to 2013	63,270
Computer equipment loan payable in annual installments of \$8,101 through December 2010; plus interest at 4.18%	<u>24,303</u>
Total other obligations	303,764
Early retirement incentives	<u>85,000</u>
	<u>\$ 16,271,253</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt and other obligations, excluding School Bond Loan Fund, outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 570,902	\$ 670,725	\$ 1,241,627
2010	626,282	674,490	1,300,772
2011	584,322	630,891	1,215,213
2012	577,337	610,201	1,187,538
2013	584,967	589,417	1,174,384
2014-2018	3,225,000	2,541,681	5,766,681
2019-2023	3,980,000	1,804,770	5,784,770
2024-2028	4,875,000	921,123	5,796,123
2029-2030	1,290,000	85,263	1,375,263
	<u>\$ 16,313,810</u>	<u>\$ 8,528,561</u>	<u>\$ 24,842,371</u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008, was 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$828,000, \$829,000, and \$753,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—CONTINGENCIES

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 85 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE L—SUBSEQUENT EVENT

On August 20, 2008, the School District received the proceeds of a \$1,200,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2009 and bears interest at the rate of 1.7 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget - positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u></u>
REVENUES				
Local sources	\$ 901,553	\$ 920,487	\$ 945,797	\$ 25,310
State sources	7,811,683	7,986,437	7,929,450	(56,987)
Federal sources	358,301	433,968	402,899	(31,069)
Incoming transfers and other transactions	<u>435,888</u>	<u>467,438</u>	<u>513,164</u>	<u>45,726</u>
Total revenues	9,507,425	9,808,330	9,791,310	(17,020)
EXPENDITURES				
Instruction				
Basic programs	4,319,262	4,228,975	4,122,110	106,865
Added needs	1,660,010	1,747,817	1,644,182	103,635
Support services				
Pupil	418,280	406,249	403,589	2,660
Instructional staff	100,686	94,680	78,891	15,789
General administration	332,645	308,947	295,280	13,667
School administration	459,442	494,147	480,205	13,942
Business	276,782	251,802	234,478	17,324
Operations and maintenance	1,016,331	1,083,425	978,171	105,254
Pupil transportation services	809,725	844,553	772,765	71,788
Central	221,491	153,470	148,510	4,960
Community services	-	-	240	(240)
Outgoing transfers and other transactions	<u>217,772</u>	<u>237,766</u>	<u>234,574</u>	<u>3,192</u>
Total expenditures	<u>9,832,426</u>	<u>9,851,831</u>	<u>9,392,995</u>	<u>458,836</u>
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(325,001)</u>	\$ <u>(43,501)</u>	398,315	\$ <u>441,816</u>
Fund balance at July 1, 2007			<u>983,984</u>	
Fund balance at June 30, 2008			<u>\$ 1,382,299</u>	

Holton Public Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 3, 2008

Board of Education
Holton Public Schools
Holton, Michigan

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated September 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holton Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holton Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Holton Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 and 2, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Board of Education
September 3, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Holton Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Holton Public Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Holton Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 3, 2008

Board of Education
Holton Public Schools
Holton, Michigan

Compliance

We have audited the compliance of Holton Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its cluster of major federal programs for the year ended June 30, 2008. Holton Public Schools' cluster of major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its cluster of major federal programs is the responsibility of Holton Public Schools' management. Our responsibility is to express an opinion on Holton Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Holton Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Holton Public Schools' compliance with those requirements.

As described in Finding 3 in Part C of the accompanying Schedule of Findings and Responses, Holton Public Schools did not comply with requirements regarding Special Tests and Provisions: Verification of Free and Reduced Price Applications compliance requirements that are applicable to its U.S. Department of Agriculture Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for Holton Public Schools to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Holton Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Holton Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Holton Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Holton Public Schools' internal control over compliance.

Board of Education
September 3, 2008
Page 2

Internal Control Over Compliance—Continued

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses as Finding 3 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness.

Holton Public Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Holton Public Schools' responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Holton Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated September 3, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue	Cash or payments in kind received	Expenditures (accrual basis)			Accrued (deferred) revenue
			July 1, 2007	(cash basis)	Prior year	Current year	Total	June 30, 2008
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I	84.010							
061530 0607		\$ 36,218	\$ 6,645	\$ 6,645	\$ 36,218	\$ -	\$ 36,218	\$ -
071530 0607		228,163	33,171	33,171	225,322	-	225,322	-
081530 0708		275,370	-	219,205	-	262,707	262,707	43,502
		539,751	39,816	259,021	261,540	262,707	524,247	43,502
Service Provider Self Review	84.027							
080440 0708		2,608	-	2,608	-	2,608	2,608	-
Title V	84.298							
080250 0708		2,251	-	2,251	-	2,251	2,251	-
Technology Literacy Challenge	84.318							
084290 0708		2,436	-	2,351	-	2,436	2,436	85
Improving Teacher Quality	84.367							
060520 0607		11,853	6,981	6,981	11,853	-	11,853	-
070520 0607		68,349	13,397	13,397	58,264	-	58,264	-
080520 0708		86,081	-	54,625	-	68,339	68,339	13,714
		166,283	20,378	75,003	70,117	68,339	138,456	13,714
Total passed through Michigan Department of Education		713,329	60,194	341,234	331,657	338,341	669,998	57,301
Passed through Muskegon Area Intermediate School District								
Drug Free Schools and Communities Act	84.186							
072860 0708		5,137	-	5,137	-	5,137	5,137	-
PL 101-476 Flowthrough	84.027							
060450 0506		16,500	5,697	5,697	16,500	-	16,500	-
070450 0607		19,540	254	254	19,540	-	19,540	-
080450 0708		49,350	-	42,076	-	49,350	49,350	7,274
		85,390	5,951	48,027	36,040	49,350	85,390	7,274
Total passed through Muskegon Area Intermediate School District		90,527	5,951	53,164	36,040	54,487	90,527	7,274

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued	Cash or	Expenditures			Accrued
			(deferred) revenue July 1, 2007	payments in kind received (cash basis)	(accrual basis)		(deferred) revenue June 30, 2008	
					Prior year	Current year	Total	
<i>U.S. Department of Education-continued</i>								
Passed through Traverse Bay Area Intermediate School District								
Career Forward	84.318							
084240 PRO 4		\$ 1,000	\$ -	\$ 1,000	\$ -	\$ 1,000	\$ 1,000	\$ -
Total U.S. Department of Education		804,856	66,145	395,398	367,697	393,828	761,525	64,575
<i>U.S. Department of Agriculture</i>								
Passed through Michigan Department of Education								
National School Lunch and Breakfast								
Entitlement Commodities	10.550	22,810	-	22,810	-	22,810	22,810	-
Bonus Commodities		17	-	17	-	17	17	-
		22,827	-	22,827	-	22,827	22,827	-
Child Nutrition Cluster								
071970 Lunch—Breakfast	10.553	5,686	-	5,686	-	5,686	5,686	-
081970 Lunch—Breakfast		107,633	-	91,067	-	107,633	107,633	16,566
		113,319	-	96,753	-	113,319	113,319	16,566
071950 All Lunches	10.555	3,224	-	3,224	-	3,224	3,224	-
081950 All Lunches		25,984	-	21,264	-	25,984	25,984	4,720
071960 Free and Reduced		19,789	-	19,789	-	19,789	19,789	-
081960 Free and Reduced		168,813	-	139,072	-	168,813	168,813	29,741
081980 Snack Program		3,716	-	3,063	-	3,716	3,716	653
		221,526	-	186,412	-	221,526	221,526	35,114
Total Child Nutrition Cluster		334,845	-	283,165	-	334,845	334,845	51,680
Total passed through Michigan Department of Education		357,672	-	305,992	-	357,672	357,672	51,680

Holton Public Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue	Cash or payments in kind received	Expenditures (accrual basis)			Accrued (deferred) revenue
			July 1, 2007	(cash basis)	Prior year	Current year	Total	June 30, 2008
<i>U.S. Department of Agriculture-continued</i>								
Passed through Muskegon Area Intermediate School District								
Michigan Model Nutrition Grant 478258	10.551	\$ 2,000	\$ -	\$ 528	\$ -	\$ 528	\$ 528	\$ -
Total passed through U.S. Department of Agriculture		359,672	-	306,520	-	358,200	358,200	51,680
<i>U.S. Department of Health and Human Services</i>								
Passed through Muskegon Area Intermediate School District								
Medical Assistance Program Title XIX 393	93.778	8,543	-	8,112	-	8,543	8,543	431
TOTAL FEDERAL ASSISTANCE		\$ 1,173,071	\$ 66,145	\$ 710,030	\$ 367,697	\$ 760,571	\$ 1,128,268	\$ 116,686

The accompanying notes are an integral part of this schedule.

Holton Public Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008

Governmental Funds financial statements

General Fund	\$ 402,899	
Other governmental funds (includes		
Food Service Fund)	<u>357,672</u>	\$ <u>760,571</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		\$ <u><u>760,571</u></u>
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Holton Public Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Holton Public Schools.
2. **Two (2)** significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. **No** instances of noncompliance material to the financial statements of Holton Public Schools were disclosed during the audit and as reported in Part B of this schedule.
4. **One (1)** significant deficiency disclosed during the audit of the cluster of major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Part C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the cluster of major federal award programs for Holton Public Schools expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a cluster of major programs was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553 and 10.555

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Holton Public Schools was determined to be a low-risk auditee.

Holton Public Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Segregation of Duties Within Accounting Department

Criteria: No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Condition: In the cash receipts function, we noted the Business Manager records payments received in the general ledger, prepares the bank deposits, and prepares the bank reconciliations. In the cash disbursements function, we noted the Business manager prepares disbursements, signs checks using the MICR printer, has access to signature stamp, records checks in the general ledger, and prepares the bank reconciliation. In the payroll function, we noted the Business Manager prepares payroll, distributes checks and prepares the bank reconciliation.

Cause: The above functions are performed by management level personnel in a small school district that has limited resources to hire additional staff.

Effect: The lack of segregation of duties could result in the misappropriation of funds or a material misstatement in the accounting records and not be detected.

Recommendation: Internal control procedures within the accounting department should be further segregated.

School District Response: The following mitigating controls are in place. The School District continues to enhance the control procedures as they continue to successfully operate with this risk.

The School District completed written control procedures for the following:

- Accounts Payable
- Accounts Receivable
- Cash Receipts
- Payroll
- Bank Reconciliations

All procedures have been implemented.

The School District adopted and assigned a purchasing card to the Administrative Assistant to the Superintendent to further segregate the accounts payable function. The use of the purchasing card allows an additional step in the process of internal controls by segregating payment of purchases. The building level supervisor places the order and the Administrative Assistant submits payment with the purchasing card. The Business Manager receives monthly statements for the purchasing card to review purchases and make payment. All purchase card transactions are signed by the Superintendent.

The School District has established quarterly meetings with the Board of Education Finance Committee to review reports, budgeting and procedures. The dates for 2008-2009 will be established by October 1.

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 2: Documentation Procedures for Athletic Agency Fund Transactions

Criteria: All receipts and disbursements should be supported by appropriate documentation.

Condition: We noted that not all disbursements from the Athletic Agency Fund were supported by appropriate documentation as required. All disbursements supported by “Tournament Financial Report Forms” should include the names of all workers and receipts/invoices for all disbursements. We also noted that receipts were not adequately supported by appropriate documentation. All receipts supported by “Tournament Financial Report Forms” should include a reconciliation of ticket sales, including beginning and ending ticket numbers, total tickets sold, ticket price, and signature of authorized person reconciling cash box. Also, “Fundraising Forms” should be completed per school policy to ensure proper reconciliation of funds raised. Camp and club fees should be supported by a list of students attending and fees paid.

Cause: Proper documentation is not maintained as required by School District policy.

Effect: The noncompliance with School District policy could result in adequate supporting documentation not being available upon request and/or the misappropriation of funds could occur without being detected.

Recommendation: School District personnel should improve compliance with School District policies on documentation required to support Athletic Agency Fund transactions.

School District Response: The Athletic Director will be directed to follow all policies and procedures in place to mitigate the risk in Finding No. 2. The School District has established an Athletic Department Manual that will be used by the Athletic Department. All receipts, expenditures, and fundraising activities will include proper documentation as established by the district. Tournament Financial Report Forms will be completed accurately, and include proper documentation. The reconciliation of ticket sales will follow the established School District procedures.

Holton Public Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2008 Finding No. 3: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 071970, 081970, 071950, 071960, 081950, 081960, 081980

Award Year Ends: September 30, 2007 and September 30, 2008

Specific Requirement: Special Tests and Provisions: Verification of Free and Reduced Price Applications

Criteria: The School Food Authorities (SFA) must (1) test 3% of all applications to verify determination of eligibility and (2) verify that eligibility was correctly determined.

Condition: We noted (1) the School District personnel selected 8 applications for verification, while 3% of all applications should have been 9 applications, and (2) 4 of 8 applications selected for verification resulted in an incorrect status after verification.

Cause: School District personnel (1) stated that the computer software determines the sample size and randomly selected sample and (2) stated that personnel incorrectly input the applications data into the computer software and were not aware that Social Security numbers were required for all adult household members.

Questioned Costs: \$1,034

Context: There were 4 issues in a sample size of 8 students selected.

Effect: One application was verified as free, but should have been reduced based on income. One application was verified as reduced, but should have been denied based both on income and lack of Social Security number. Two applications (one free, one reduced) should have been denied based on lack of Social Security numbers.

Recommendation: The School District should improve its compliance with federal child nutrition program eligibility determination and verification requirements.

School District Response: The School District will more aggressively monitor its compliance with federal child nutrition eligibility and verification by adding an additional monitoring procedure. No later than October 31, of each year, the Business Manager will meet with the Food Service Director to re-verify eligibility of all applications. The procedure will include verifying income eligibility, Social Security numbers and proper documentation.

SIGNIFICANT DEFICIENCIES

See Fiscal 2008 Finding No. 3 above.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 3, 2008

Michigan Department of Education
Lansing, Michigan

Holton Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated September 13, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Cash Segregation of Duties

Condition: In the cash receipts function, we noted the Business Manager records cash receipts in the general ledger, prepares the bank deposits and prepares the monthly bank reconciliation. In the cash disbursements function, we noted the Business manager prepares disbursements, signs checks using the MICR printer, has access to the signature stamp, records checks in the general ledger and prepares the bank reconciliation.

Recommendation: The allocation of procedures in the cash function should be further segregated in order to strengthen internal controls.

Current Status: See Fiscal 2008 Finding No. 1 for similar finding noted in the fiscal 2008 audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2007 Finding No. 2: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 061970, 071970, 061950, 071950, 061960 and 071960

Award Year Ends: September 30, 2006 and September 30, 2007

Specific Requirement: Special Tests and Provisions: Verification of Free and Reduced Price Applications

Condition: We noted that the SFA did not verify the correct number of applications as required by Basic Sampling.

Recommendation: The School District should review its verification procedures to ensure compliance with federal child nutrition requirements and MDE requirements:

Current Status: See Fiscal 2008 Finding No. 3 for similar finding noted in fiscal 2008 audit.

SIGNIFICANT DEFICIENCIES

See Fiscal 2007 Finding No. 2 above.

Sincerely,



John Fazer
Superintendent

CORRECTIVE ACTION PLAN

September 3, 2008

Michigan Department of Education
Lansing, Michigan

Holton Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Segregation of Duties Within Accounting Department

Recommendation: Internal control procedures within the accounting department should be further segregated.

School District Response: The following mitigating controls are in place. The School District continues to enhance the control procedures as they continue to successfully operate with this risk.

The School District completed written control procedures for the following:

- Accounts Payable
- Accounts Receivable
- Cash Receipts
- Payroll
- Bank Reconciliations

All procedures have been implemented.

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS—Continued

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 1—Continued

School District Response—Continued

The School District adopted and assigned a purchasing card to the Administrative Assistant to the Superintendent to further segregate the accounts payable function. The use of the purchasing card allows an additional step in the process of internal controls by segregating payment of purchases. The building level supervisor places the order and the Administrative Assistant submits payment with the purchasing card. The Business Manager receives monthly statements for the purchasing card to review purchases and make payment. All purchase card transactions are signed by the Superintendent.

The School District has established quarterly meetings with the Board of Education Finance Committee to review reports, budgeting and procedures. The dates for 2008-2009 will be established by October 1.

Fiscal 2008 Finding No. 2: Documentation Procedures for Athletic Agency Fund Transactions

Recommendation: School District personnel should improve compliance with School District policies on documentation required to support Athletic Agency Fund transactions.

School District Response: The Athletic Director will be directed to follow all policies and procedures in place to mitigate the risk in Finding No. 2. The School District has established an Athletic Department Manual that will be used by the Athletic Department. All receipts, expenditures, and fundraising activities will include proper documentation as established by the district. Tournament Financial Report Forms will be completed accurately, and include proper documentation. The reconciliation of ticket sales will follow the established School District procedures.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS

COMPLIANCE

Fiscal 2008 Finding No. 3: Child Nutrition Cluster

Special Tests and Provisions: Verification of Free and Reduced Price Applications

Recommendation: The School District should improve its compliance with federal child nutrition program eligibility determination and verification requirements.

Action Taken: The School District will more aggressively monitor its compliance with federal child nutrition eligibility and verification by adding an additional monitoring procedure. No later than October 31, of each year, the Business Manager will meet with the Food Service Director to re-verify eligibility of all applications. The procedure will include verifying income eligibility, Social Security numbers and proper documentation.

SIGNIFICANT DEFICIENCIES

See Fiscal 2008 Finding No. 3 above.

If the Michigan Department of Education has questions regarding this plan, please call John Fazer at (231) 821-1700.

Sincerely,



John Fazer
Superintendent

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 3, 2008

Board of Education
John Fazer, Superintendent
Holton Public Schools
Holton, Michigan

In planning and performing our audit of the financial statements of Holton Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Holton Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Recommendation 1: The allocation of procedures in the cash function should be further segregated in order to strengthen internal controls.

Currently, the Business Manager has the responsibilities to record cash receipts in the general ledger, prepares the bank deposit, prepares the monthly bank reconciliation, prepares cash disbursements checks, prepares payroll, signs such checks using the MICR printer, has access to the signature stamp and records checks in the general ledger. The concentration of these responsibilities by an individual increases the possibility for errors or the misappropriation of funds to go undetected.

Further segregation of procedures in the cash function would reduce the opportunity for errors or the misappropriation of funds to go undetected.

Recommendation 2: Athletics Agency Fund transaction should be supported by proper documentation.

We noted that not all disbursements from the Athletic Agency fund were supported by proper documentation as required. All disbursements supported by "Tournament Financial Report Forms" should include the names of all workers and receipts/invoices for all disbursements. We also noted that receipts were not adequately supported by proper documentation. All receipts supported by "Tournament Financial Report Forms" should include a reconciliation of ticket sales, including beginning and ending ticket numbers, total tickets sold, ticket price, and signature of authorized person reconciling cash box. Also, "Fundraising Forms" should be completed per school policy to ensure proper reconciliation of funds raised. Camp and club fees should be supported by a list of students attending and fees paid.

Compliance with School District Athletic Agency policies would reduce the opportunity for errors or the misappropriation of funds to go undetected.